

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 2790-01  
BILL NO.: HB 1189  
SUBJECT: Corporations; Taxation and Revenue-General  
TYPE: Original  
DATE: January 24, 2000

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$80,000,000)	(\$72,700,000)	(\$76,244,580)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$80,000,000)</b>	<b>(\$72,700,000)</b>	<b>(\$76,244,580)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials of the **Secretary of State (SOS)** state this legislation would eliminate the need for all corporations to pay franchise tax after January 1, 2001. Beginning January 1, 2000, only corporations with assets in excess of \$1 million will be liable for franchise taxes. Beginning January 1, 2000, the administration of franchise tax is being moved to the Department of Revenue. However, based on prior administration of this tax, SOS staff estimate that lost tax revenue would be approximately \$25 million in FY 2001, \$49 million in FY 2002 and \$51 million in FY 2003.

Officials of the **Office of Administration (COA)** state this legislation would eliminate the need for all corporations to pay franchise tax after January 1, 2001. COA staff state that FY 1999 collections of corporate franchise tax was \$91.2 million. COA staff state that budget projections for corporate franchise tax collections are \$95 million for FY2000, \$80 million for FY2001 and \$72.7 million for FY2002 and \$76.3 million for FY2003. These estimates take into account the provisions included in HB 516 enacted last session. Based on those projections, this proposal would eliminate those projected collections.

Officials of the **Department of Revenue (DOR)** state this legislation will decrease Total State Revenues by eliminating the franchise taxes paid. However, this legislation will also eliminate the franchise tax paid by banks and now require them to pay the 7% bank tax. This will also reduce General Revenue and will increase distributions paid back to political subdivisions.

### **ADMINISTRATIVE IMPACT:**

The Department will see a savings of two FTE in FY 2003. In order to continue collection efforts and the enforcement of franchise tax laws for previous tax years, the Department will still have three FTE on staff. Once the statute of limitations expire for franchise taxes, the Department will see a savings of these three additional FTE. Any equipment and expenses still on hand will be utilized in other areas.

Officials of the **Department of Economic Development (DED)-Division of Finance** state that banks do not pay Chapter 147 franchise taxes. Therefore this proposal would not affect banks.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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**GENERAL REVENUE FUND**

Savings to General Revenue

Department of Revenue (DOR)

Personal Service (2 FTE)	\$0	\$0	\$42,386
Fringe Benefits	\$0	\$0	\$13,034
Expense and Equipment	\$0	\$0	<u>\$0</u>
Total Administrative <u>Savings</u> to DOR	\$0	\$0	\$55,420

Loss to General Revenue Fund

Elimination of the Corporate Franchise  
 Tax

(\$80,000,000)	(\$72,700,000)	(\$76,300,000)
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**ESTIMATED NET EFFECT ON  
 GENERAL REVENUE FUND**

<u>(\$80,000,000)</u>	<u>(\$72,700,000)</u>	<u>(\$76,244,580)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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\$0	\$0	\$0
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FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they are required to file and pay corporate franchise tax. Under this proposal those small businesses would not have to file or pay corporate franchise tax.

DESCRIPTION

This bill repeals the provisions of the state corporate franchise tax beginning January 1, 2001.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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Secretary of State  
Office of Administration  
Department of Revenue  
Department of Economic Development

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive script.

Jeanne Jarrett, CPA  
Director  
January 24, 2000